

B U S I N E S S S I T U A T I O N

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REAL GROSS domestic product (GDP) increased 3.9 percent in the third quarter of 1998, according to the "preliminary" estimates of the national income and product accounts (NIPA's), after increasing 1.8 percent in the second quarter (table 1 and chart 1); the "advance" third-quarter estimate of real GDP, reported in the November "Business Situation," had shown a 3.3-percent increase.¹ The upward revision to real GDP reflected a downward revision to imports,

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates unless otherwise specified. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarters except those in the most recent year, which are calculated using quarterly weights; real estimates are expressed both as index numbers (1992=100) and as chained (1992) dollars. Price indexes (1992=100) are also calculated using a chain-type Fisher formula.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

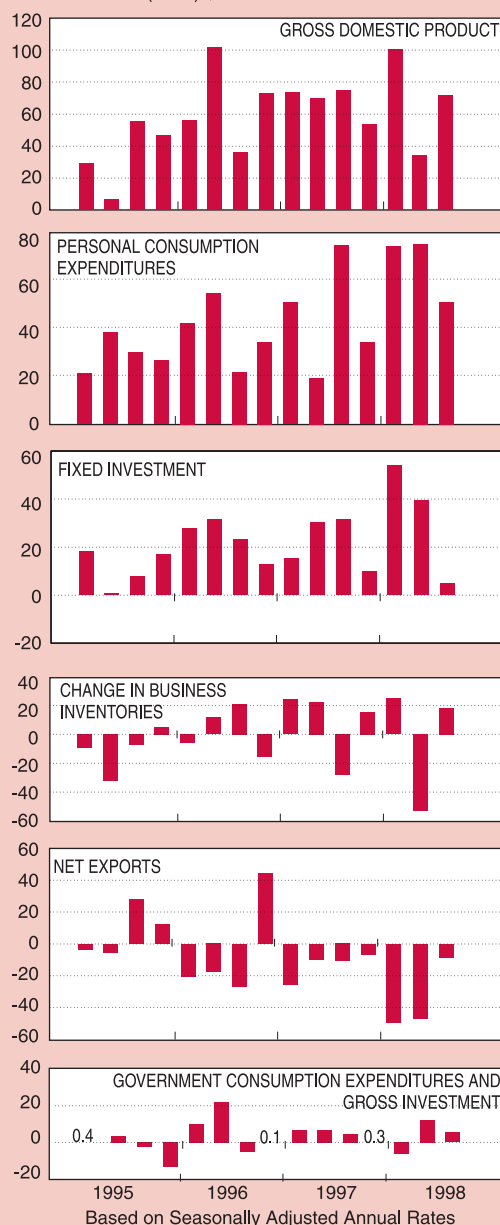
| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|--|------------------------------------|-------------|-------------------------------|--------------|-------------|---------------------------------------|------------|------------|------------|
| | Level | | Change from preceding quarter | | | | | | |
| | | | 1998 | | | 1997 | | | |
| | 1998 | 1997 | I | II | III | IV | I | II | III |
| | III | IV | I | II | III | IV | I | II | III |
| Gross domestic product | 7,570.0 | 53.4 | 100.1 | 33.9 | 71.4 | 3.0 | 5.5 | 1.8 | 3.9 |
| Less: Exports of goods and services | 967.4 | 10.7 | -6.9 | -19.8 | -4.7 | 4.4 | -2.8 | -7.7 | -1.9 |
| Plus: Imports of goods and services | 1,221.3 | 17.3 | 42.6 | 26.9 | 4.0 | 6.3 | 15.7 | 9.3 | 1.3 |
| Equals: Gross domestic purchases | 7,798.1 | 59.0 | 142.8 | 73.7 | 79.5 | 3.2 | 7.8 | 3.9 | 4.2 |
| Less: Change in business inventories | 56.6 | 15.5 | 24.9 | -53.2 | 18.4 | ..... | ..... | ..... | ..... |
| Nonfarm | 48.4 | 18.7 | 23.2 | -56.0 | 18.5 | ..... | ..... | ..... | ..... |
| Farm | 8.7 | -3.6 | 1.6 | 3.4 | 0 | ..... | ..... | ..... | ..... |
| Equals: Final sales to domestic purchasers | 7,738.2 | 44.1 | 120.1 | 124.2 | 61.8 | 2.4 | 6.6 | 6.7 | 3.3 |
| Personal consumption expenditures | 5,181.9 | 34.0 | 74.1 | 75.1 | 51.7 | 2.8 | 6.1 | 6.1 | 4.1 |
| Durable goods | 733.6 | 5.2 | 25.5 | 19.1 | 4.2 | 3.1 | 15.8 | 11.2 | 2.4 |
| Nondurable goods | 1,548.9 | -1.4 | 26.9 | 19.7 | 8.0 | -4 | 7.4 | 5.3 | 2.1 |
| Services | 2,905.0 | 29.4 | 24.5 | 37.5 | 38.2 | 4.3 | 3.5 | 5.4 | 5.4 |
| Gross private domestic fixed investment | 1,268.7 | 10.2 | 55.4 | 39.2 | 4.6 | 3.6 | 20.4 | 13.4 | 1.4 |
| Nonresidential fixed investment | 957.4 | 4.0 | 45.7 | 28.5 | -3.0 | 1.8 | 22.2 | 12.8 | -1.2 |
| Structures | 201.2 | .5 | -2.6 | -1.2 | -7 | .9 | -4.9 | -2.3 | -1.5 |
| Producers' durable equipment | 769.1 | 3.8 | 52.4 | 32.5 | -2.2 | 2.2 | 34.3 | 18.8 | -1.1 |
| Residential investment | 315.5 | 5.6 | 10.6 | 10.6 | 6.4 | 8.2 | 15.6 | 15.0 | 8.6 |
| Government consumption expenditures and gross investment | 1,300.0 | .3 | -6.2 | 11.8 | 5.2 | .1 | -1.9 | 3.7 | 1.6 |
| Federal | 452.2 | -2.4 | -10.4 | 8.0 | -1.9 | -2.1 | -8.8 | 7.3 | -1.6 |
| National defense | 303.6 | -1.5 | -15.4 | 7.0 | 3.3 | -2.0 | -18.5 | 9.9 | 4.3 |
| Nondefense | 148.0 | -9 | 4.6 | 1.0 | -4.9 | -2.3 | 13.1 | 2.6 | -12.2 |
| State and local | 848.0 | 2.8 | 4.2 | 3.8 | 7.1 | 1.3 | 2.1 | 1.8 | 3.4 |
| Addendum: Final sales of domestic product | 7,510.2 | 38.5 | 77.7 | 83.9 | 53.8 | 2.1 | 4.3 | 4.6 | 2.9 |

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are in NIPA table 8.1.

CHART 1

Real Product: Change from Preceding Quarter

Billion chained (1992) \$



U.S. Department of Commerce, Bureau of Economic Analysis

which are subtracted in the calculation of GDP, and an upward revision to personal consumption expenditures for durable goods; these revisions were partly offset by a downward revision to business investment in producers' durable equipment. (The sources of the revisions are discussed in the section "Revisions.")

The 3.9-percent increase in the third quarter is higher than the 3.0-percent average annual growth rate for real GDP over the current expansion that began in the second quarter of 1991. The picture of the economy in the third quarter presented by the preliminary estimates is little changed from that presented by the advance estimates. Like the advance estimates, the preliminary estimates showed the following:

- Real GDP growth accelerated in the third quarter.
- This acceleration was more than accounted for by an upturn in inventory investment; real final sales of domestic product increased less than in the second quarter.²
- Real gross domestic purchases accelerated much less than GDP; the slowdown in the

2. Final sales of domestic product is calculated as GDP less the change in business inventories.

Table 2.—Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

| | 1997 | 1998 | | |
|--|------|-------|-------|------|
| | IV | I | II | III |
| Percent change at annual rate: | | | | |
| Gross domestic product | 3.0 | 5.5 | 1.8 | 3.9 |
| Percentage points at annual rates: | | | | |
| Personal consumption expenditures | 1.88 | 4.09 | 4.09 | 2.78 |
| Durable goods | .26 | 1.23 | .91 | .20 |
| Nondurable goods | -.08 | 1.41 | 1.01 | .41 |
| Services | 1.70 | 1.40 | 2.14 | 2.17 |
| Gross private domestic investment | 1.34 | 4.07 | -.75 | 1.16 |
| Fixed investment | .48 | 2.82 | 1.95 | .22 |
| Nonresidential | .16 | 2.21 | 1.35 | -.14 |
| Structures | .03 | -.15 | -.07 | -.04 |
| Producers' durable equipment | .13 | 2.36 | 1.42 | -.09 |
| Residential | .32 | .60 | .60 | .36 |
| Change in business inventories | .85 | 1.22 | -2.66 | .94 |
| Net exports of goods and services | -.30 | -2.24 | -2.08 | -.39 |
| Exports | .53 | -.33 | -.92 | -.22 |
| Goods | .67 | -.29 | -.98 | .02 |
| Services | -.14 | -.04 | .06 | -.24 |
| Imports | -.83 | -1.94 | -1.18 | -.17 |
| Goods | -.71 | -1.75 | -1.19 | -.25 |
| Services | -.12 | -.19 | .01 | .08 |
| Government consumption expenditures and gross investment | .02 | -.34 | .64 | .29 |
| Federal | -.14 | -.57 | .44 | -.10 |
| National defense | -.09 | -.84 | .38 | .17 |
| Nondefense | -.05 | .26 | .06 | -.27 |
| State and local | .15 | .24 | .20 | .39 |

increase in imports was larger than the slowdown in the decrease in exports.³

- The largest contributors to the third-quarter increase in real GDP were PCE for services and inventory investment, primarily investment in motor vehicle inventories (table 2). The increase in GDP was moderated by decreases in Federal nondefense spending and in exports of services and by an increase in imports of goods.

The price index for gross domestic purchases increased 0.5 percent in the third quarter after increasing 0.4 percent in the second (table 3); over the past four quarters, prices increased 0.4 percent, the lowest four-quarter increase during the current expansion. The price index for GDP increased 0.8 percent in the third quarter after increasing 0.9 percent in the second. The larger increases in GDP prices than in gross domestic purchases prices in the past two quarters were due to larger decreases in the prices of imports than in the prices of exports.⁴

Real disposable personal income (DPI) increased 3.1 percent in the third quarter after increasing 2.6 percent in the second. The personal saving rate was 0.2 percent in the third quarter, down from 0.4 percent in the second; these quarters are the only ones in which the saving rate has been below 1.0 percent since the quarterly series began in 1946.

3. Gross domestic purchases—a measure of purchases by U.S. residents regardless of where the purchased goods and services were produced—is calculated as GDP less exports of goods and services plus imports of goods and services.

4. Import prices are included in gross domestic purchases prices but not in GDP prices, and export prices are included in GDP prices but not in gross domestic purchases prices.

Table 3.—Price Indexes

[Percent change at annual rates; based on seasonally adjusted index numbers (1992=100)]

| | 1997 | 1998 | | |
|--|------------|------------|------------|------------|
| | IV | I | II | III |
| Gross domestic product | 1.1 | 0.9 | 0.9 | 0.8 |
| Less: Exports of goods and services | -1.6 | -3.4 | -1.8 | -2.9 |
| Plus: Imports of goods and services | -2.3 | -10.4 | -4.5 | -4.8 |
| Equals: Gross domestic purchases | 1.0 | -.2 | .4 | .5 |
| Less: Change in business inventories | | | | |
| Equals: Final sales to domestic purchasers | 1.0 | -.1 | .5 | .5 |
| Personal consumption expenditures | 1.1 | 0 | .9 | 1.0 |
| Private nonresidential fixed investment | -1.6 | -3.0 | -3.1 | -3.7 |
| Private residential investment | 2.4 | 0 | 1.7 | 2.8 |
| Government consumption expenditures and gross investment | 2.2 | 1.1 | .8 | 1.0 |
| Addendum: Gross domestic purchases less food and energy | 1.0 | .7 | .7 | .6 |

NOTE.—Percent changes in major aggregates are in NIPA table 8.1. Index number levels are in NIPA tables 7.1, 7.2, and 7.4.

Personal consumption expenditures

Real PCE increased 4.1 percent in the third quarter after increasing 6.1 percent in the second (table 4). Expenditures for both durable and nondurable goods slowed; expenditures for services increased at the same rate as in the second quarter.

Many of the factors usually considered in analyses of PCE remained strong in the third quarter (chart 2). As mentioned above, real DPI accelerated. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) was only slightly below its near-record high in the second quarter. The unemployment rate edged up to 4.5 percent from 4.4 percent—its lowest rate in more than 25 years.

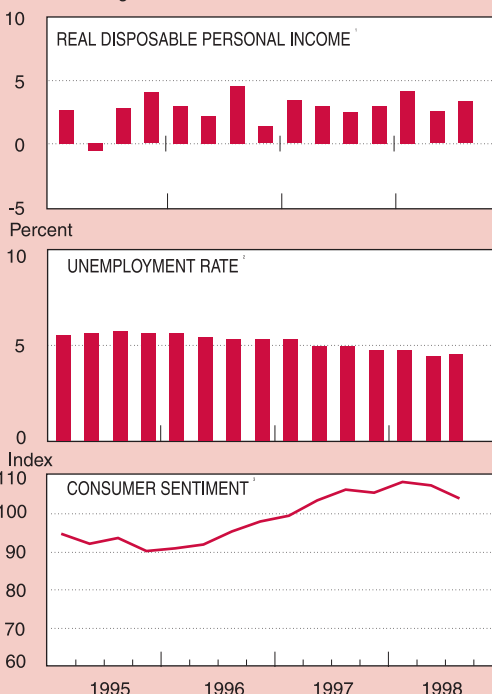
Expenditures for durable goods increased 2.4 percent after increasing 11.2 percent. A downturn in motor vehicles and parts was more than accounted for by downturns in purchases of new autos and trucks; net purchases of used autos turned up.⁵ Furniture and household equipment accelerated; most of this acceleration was in consumer electronics, which includes computers.

5. Net purchases of used autos in PCE is defined as consumer purchases of used autos from business, government, and foreigners less consumer sales of used autos to these sectors. PCE for used autos has two components: Net transactions, which is consumer purchases less sales valued at wholesale prices, and dealers' margins, which is the difference between the retail and wholesale value of purchases by consumers from dealers. The sum of the net transactions of all sectors is zero and does not affect total GDP; dealers' margins do affect total GDP.

CHART 2

Selected Factors Affecting Consumer Spending

Percent change



1. Disposable personal income in chained (1992) dollars; seasonally adjusted annual rates.

2. All civilian workers, seasonally adjusted.

Data: U.S. Department of Labor, Bureau of Labor Statistics

3. Data: University of Michigan's Survey Research Center.

U.S. Department of Commerce, Bureau of Economic Analysis

Table 4.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|--|------------------------------------|-------------|-------------------------------|-------------|-------------|---------------------------------------|------------|------------|------------|
| | Level | | Change from preceding quarter | | | | | | |
| | 1998 | | 1998 | | | 1997 | | | |
| | III | IV | I | II | III | IV | I | II | III |
| Personal consumption expenditures | 5,181.9 | 34.0 | 74.1 | 75.1 | 51.7 | 2.8 | 6.1 | 6.1 | 4.1 |
| Durable goods | 733.6 | 5.2 | 25.5 | 19.1 | 4.2 | 3.1 | 15.8 | 11.2 | 2.4 |
| Motor vehicles and parts | 252.3 | -1.7 | 5.1 | 11.1 | -6.6 | -2.7 | 8.6 | 19.1 | -9.8 |
| Of which: New autos | 79.2 | -2.1 | 1.4 | 5.3 | -6.5 | -9.9 | 7.4 | 29.1 | -27.2 |
| New trucks | 66.4 | 1.9 | .8 | 6.7 | -4.7 | 13.0 | 4.7 | 48.4 | -23.8 |
| Furniture and household equipment | 352.3 | 5.4 | 17.7 | 3.5 | 13.0 | 7.1 | 24.1 | 4.3 | 16.2 |
| Other | 139.2 | 2.3 | 4.3 | 3.5 | .6 | 7.3 | 13.9 | 10.5 | 1.7 |
| Nondurable goods | 1,548.9 | -1.4 | 26.9 | 19.7 | 8.0 | -4 | 7.4 | 5.3 | 2.1 |
| Food | 718.5 | -7 | 6.9 | 9.5 | 2.2 | -4 | 4.0 | 5.5 | 1.2 |
| Clothing and shoes | 310.0 | .4 | 15.1 | 4.0 | -1.4 | .6 | 22.2 | 5.3 | -1.8 |
| Gasoline and oil | 121.1 | -3 | .4 | -1 | 2.7 | -1.0 | 1.4 | -3 | 9.2 |
| Fuel oil and coal | 9.9 | -6 | -9 | .5 | .2 | -20.4 | -29.7 | 23.6 | 9.7 |
| Other | 393.5 | -2 | 6.7 | 5.7 | 4.3 | -3 | 7.4 | 6.0 | 4.5 |
| Services | 2,905.0 | 29.4 | 24.5 | 37.5 | 38.2 | 4.3 | 3.5 | 5.4 | 5.4 |
| Housing | 737.0 | 4.4 | 4.8 | 4.0 | 4.3 | 2.5 | 2.7 | 2.2 | 2.4 |
| Household operation | 324.8 | 6.1 | -4.8 | 10.2 | 8.3 | 8.2 | -6.0 | 14.0 | 11.0 |
| Electricity and gas | 122.3 | 1.2 | -7.9 | 6.9 | 4.9 | 4.3 | -24.2 | 27.4 | 17.9 |
| Other household operation | 202.4 | 4.8 | 3.1 | 3.3 | 3.5 | 10.7 | 6.5 | 7.1 | 7.2 |
| Transportation | 221.3 | 2.2 | 2.0 | 3.5 | -1 | 4.2 | 3.7 | 6.7 | -2 |
| Medical care | 724.8 | 5.2 | 5.5 | 6.7 | 3.2 | 3.0 | 3.1 | 3.9 | 1.8 |
| Other | 899.5 | 11.8 | 16.3 | 13.8 | 22.8 | 5.8 | 7.9 | 6.5 | 10.8 |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are in NIPA tables 2.3, 8.5 (autos), and 8.7 (trucks). Percent changes in major aggregates are in NIPA table 8.1.

Expenditures for nondurable goods increased 2.1 percent after increasing 5.3 percent. Most of the deceleration was accounted for by a slowdown in food and by a downturn in clothing and shoes.

Expenditures for services increased 5.4 percent in both the second and third quarters. Transportation changed little after increasing, and medical care and household operation decelerated. "Other" services stepped up, reflecting an upturn in net foreign travel, which primarily resulted from a downturn in foreign residents' travel in the United States.

Nonresidential fixed investment

Real private nonresidential fixed investment decreased 1.2 percent in the third quarter after increasing 12.8 percent in the second (table 5). The downturn was more than accounted for by a downturn in producers' durable equipment (PDE); structures decreased less than in the second quarter.

The downturn in nonresidential fixed investment may have reflected a weakening in some of the factors that affect investment spending (chart 3). Over the past four quarters, the capacity utilization rate declined to 81.5 percent from 83.1 percent, and domestic corporate profits decreased 2.6 percent. However, other factors remained strong. Real final sales of domestic product increased 3.5 percent, and long-term interest rates decreased—for example, the yield

on high-grade corporate bonds decreased to 6.32 percent from 7.26 percent.

PDE decreased 1.1 percent—the first decrease since the fourth quarter of 1991—after jumping 18.8 percent in the second quarter. Transportation and related equipment turned down sharply in the third quarter; all components except ships and boats contributed to the downturn, but trucks, buses, and trailers contributed the most. "Other" PDE and information processing and related equipment each increased less than in the second quarter.

Structures decreased 1.5 percent after decreasing 2.3 percent; structures have decreased in the last three quarters. In the third quarter, "other" structures turned up, and mining exploration, shafts, and wells decreased less than in the second quarter. In contrast, nonresidential buildings decreased more than in the second quarter.

Residential investment

Real residential investment increased 8.6 percent in the third quarter after increasing 15.0 percent in the second (table 5). The slowdown was accounted for by single-family structures and by "other" residential investment, both of which increased less than in the second quarter. Multifamily construction decreased less than in the second quarter.

Single-family structures increased 12.8 percent after increasing 17.8 percent. Multifamily

Table 5.—Real Gross Private Domestic Fixed Investment

[Seasonally adjusted at annual rates]

| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | | |
|--|------------------------------------|-------------------------------|------|------|-------|---------------------------------------|-------|-------|-------|-----|
| | Level | Change from preceding quarter | | | | 1997 | 1998 | | | |
| | 1998 | 1997 | 1998 | | | | IV | I | II | III |
| | III | IV | I | II | III | | | | | |
| Gross private domestic fixed investment | 1,268.7 | 10.2 | 55.4 | 39.2 | 4.6 | 3.6 | 20.4 | 13.4 | 1.4 | |
| Nonresidential | 957.4 | 4.0 | 45.7 | 28.5 | -3.0 | 1.8 | 22.2 | 12.8 | -1.2 | |
| Structures | 201.2 | .5 | -2.6 | -1.2 | -.7 | .9 | -4.9 | -2.3 | -1.5 | |
| Nonresidential buildings, including farm | 149.2 | -2.5 | .6 | -.3 | -.6 | -6.3 | 1.5 | -.9 | -1.4 | |
| Utilities | 29.7 | .1 | 0 | .3 | .2 | 1.1 | .9 | 4.2 | 1.9 | |
| Mining exploration, shafts, and wells | 16.4 | .3 | -1.0 | -.9 | -.6 | 5.7 | -18.7 | -19.3 | -12.8 | |
| Other | 5.8 | 2.6 | -2.2 | -1 | .3 | 401.0 | -73.1 | -9.2 | 20.5 | |
| Producers' durable equipment | 769.1 | 3.8 | 52.4 | 32.5 | -2.2 | 2.2 | 34.3 | 18.8 | -1.1 | |
| Information processing and related equipment | 399.0 | 9.2 | 32.7 | 23.4 | 22.2 | 12.4 | 47.5 | 29.2 | 25.8 | |
| Computers and peripheral equipment | 370.2 | 13.0 | 49.3 | 39.3 | 38.7 | 24.6 | 109.2 | 65.7 | 55.7 | |
| Other | 142.5 | 1.5 | 5.2 | 3.0 | 2.8 | 4.6 | 16.9 | 8.9 | 8.5 | |
| Industrial equipment | 133.2 | .9 | 2.9 | 1.0 | .7 | 2.9 | 9.3 | 3.0 | 2.1 | |
| Transportation and related equipment | 151.7 | -2.1 | 15.8 | 8.3 | -16.2 | -5.4 | 51.7 | 22.4 | -33.4 | |
| Of which: Motor vehicles | 120.8 | -.6 | 5.4 | 6.3 | -11.4 | -1.9 | 19.1 | 21.3 | -30.3 | |
| Other | 125.8 | -1.5 | 6.1 | 4.4 | 1.2 | -4.4 | 23.5 | 15.3 | 3.9 | |
| Residential | 315.5 | 5.6 | 10.6 | 10.6 | 6.4 | 8.2 | 15.6 | 15.0 | 8.6 | |
| Single-family structures | 155.9 | 2.9 | 6.2 | 6.1 | 4.6 | 9.1 | 19.1 | 17.8 | 12.8 | |
| Multifamily structures | 20.3 | 1.5 | 1.1 | -1.4 | -.4 | 31.9 | 24.7 | -23.6 | -8.3 | |
| Other ¹ | 139.9 | 1.3 | 3.1 | 6.0 | 2.1 | 4.0 | 10.1 | 19.4 | 6.3 | |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are in NIPA tables 5.5, 8.5 (autos), and 8.7 (trucks). Percent changes in major aggregates are in NIPA table 8.1.

1. "Other" residential investment includes home improvements, new mobile home sales, brokers' commissions on home sales, residential equipment, and other residential structures (which consists primarily of dormitories and fraternity and sorority houses).

structures decreased 8.3 percent after falling 23.6 percent.

"Other" residential investment increased 6.3 percent after jumping 19.4 percent.⁶ A downturn in brokers' commissions more than offset an acceleration in home improvements. The downturn in brokers' commissions reflected a decrease in home sales of 68,000 units (seasonally adjusted annual rate) in the third quarter after an increase of 316,000 units in the second. The downturn in home sales occurred despite a decrease in the commitment rate on 30-year,

fixed-rate mortgages from 7.10 percent to 6.90 percent (chart 4).

Inventory investment

Real inventory investment—that is, the change in business inventories—increased \$18.4 billion in the third quarter, as inventory accumulation stepped up to \$56.6 billion from \$38.2 billion in the second quarter (table 6).⁷ Inventory investment had decreased sharply in the second quarter, as accumulation slowed from \$91.4 billion in the first quarter.

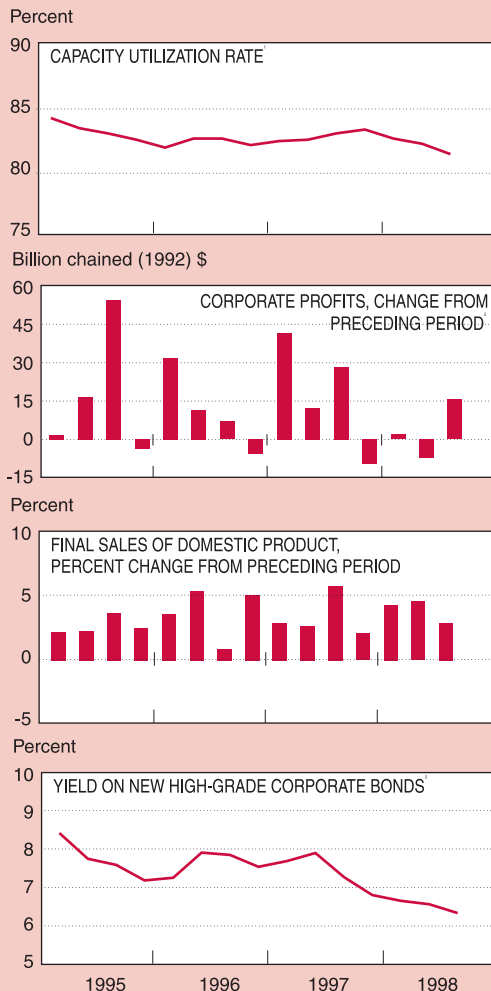
Wholesale trade inventories increased \$29.2 billion after increasing \$7.6 billion. Inventories of both durable goods and nondurable goods increased more than in the second quarter. The step-up in durable goods mainly reflected inventories of motor vehicles held by merchant wholesalers. The step-up in nondurable goods mainly reflected inventories of farm products.

Retail trade inventories decreased \$4.5 billion after decreasing \$11.9 billion. Inventories of durable goods decreased less than in the second quarter, largely reflecting the pattern of

6. "Other" residential investment includes home improvements, new mobile home sales, brokers' commissions on home sales, residential equipment, and other residential structures (which consists primarily of dormitories and fraternity and sorority houses).

CHART 3

Selected Factors Affecting Nonresidential Investment



1. All industries. Data: Federal Reserve Board

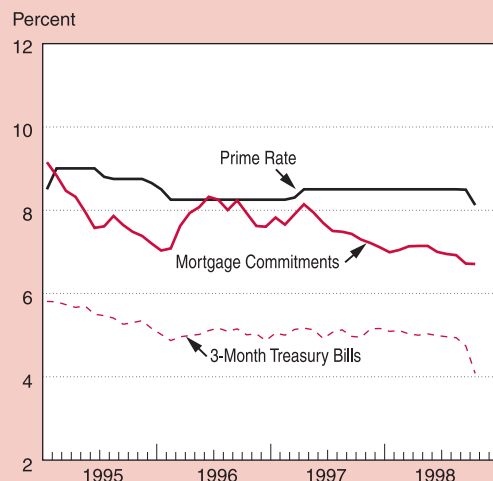
2. Domestic industries.

3. Data: U.S. Treasury Department

U.S. Department of Commerce, Bureau of Economic Analysis

CHART 4

Selected Interest Rates



Data: Federal Reserve Board, Federal Home Loan Mortgage Corporation

U.S. Department of Commerce, Bureau of Economic Analysis

7. Inventory accumulation in the third quarter was affected by the Federal Government's privatization in late July of the United States Enrichment Corporation, which performs commercial nuclear enrichment activities. Proceeds of the sale totaled \$3.1 billion (current dollars). Of this total, \$1.6 billion (\$6.4 billion at an annual rate) was the market value of uranium inventories and of machinery and equipment. (The remaining \$1.5 billion was treated as a sale of financial assets and, consequently, excluded from GDP.) The inventory portion was deducted from government consumption expenditures and added to the change in business inventories; the machinery and equipment portion was deducted from government gross investment and was added to gross private domestic fixed investment.

inventories of motor vehicle dealers. Inventories of nondurable goods increased less than in the second quarter; the slowdown largely reflected inventories of food stores and apparel stores.

Manufacturing inventories increased \$21.1 billion after increasing \$23.9 billion. Inventories of durable goods industries increased less than in the second quarter, and inventories of nondurable goods industries increased more. In the durable goods industries, inventories of transportation equipment (mainly aircraft) increased moderately after increasing sharply. In the nondurable goods industries, the step-up mainly reflected inventories of chemical manufacturers.

“Other” nonfarm inventories increased \$3.1 billion after increasing \$10.4 billion.⁸ The slowdown was mainly accounted for by nondurable goods.

Farm inventories increased \$8.7 billion, the same as in the second quarter. Crop inventories increased more than in the second quarter, but livestock inventories decreased somewhat after little change.

The ratio of real nonfarm inventories to real final sales of domestic businesses edged up to 2.27 in the third quarter from 2.26 in the second. The ratio that limits final sales to goods and struc-

8. “Other” nonfarm inventories includes inventories held by the following industries: Mining; construction; public utilities; transportation; communication; finance, insurance, and real estate; and services.

Table 6.—Real Change in Business Inventories

[Billions of chained (1992) dollars; seasonally adjusted at annual rates]

| | Level | | | | | Change from preceding quarter | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------------------------|-------------|--------------|-------------|
| | 1997 | | 1998 | | | 1997 | 1998 | | |
| | III | IV | I | II | III | IV | I | II | III |
| Change in business inventories | 51.0 | 66.5 | 91.4 | 38.2 | 56.6 | 15.5 | 24.9 | -53.2 | 18.4 |
| Farm | 7.3 | 3.7 | 5.3 | 8.7 | 8.7 | -3.6 | 1.6 | 3.4 | 0 |
| Nonfarm | 44.0 | 62.7 | 85.9 | 29.9 | 48.4 | 18.7 | 23.2 | -56.0 | 18.5 |
| Manufacturing | 15.8 | 17.7 | 30.2 | 23.9 | 21.1 | 1.9 | 12.5 | -6.3 | -2.8 |
| Durable goods | 8.4 | 8.1 | 21.0 | 19.1 | 12.7 | -3 | 12.9 | -1.9 | -6.4 |
| Nondurable goods | 7.4 | 9.5 | 9.2 | 4.9 | 8.4 | 2.1 | -3 | -4.3 | 3.5 |
| Wholesale trade | 16.7 | 20.2 | 27.0 | 7.6 | 29.2 | 3.5 | 6.8 | -19.4 | 21.6 |
| Durable goods | 4.5 | 8.6 | 25.1 | 1.6 | 14.5 | 4.1 | 16.5 | -23.5 | 12.9 |
| Nondurable goods | 11.8 | 11.4 | 2.3 | 5.9 | 14.5 | -4 | -9.1 | 3.6 | 8.6 |
| Retail trade | 5.0 | 16.9 | 17.3 | -11.9 | -4.5 | 11.9 | .4 | -29.2 | 7.4 |
| Durable goods | 3.4 | 14.1 | 1.6 | -16.3 | -6.8 | 10.7 | -12.5 | -17.9 | 9.5 |
| Of which: Motor vehicle dealers | .7 | 10.5 | -3.7 | -13.8 | -8.9 | 9.8 | -14.2 | -10.1 | 4.9 |
| Nondurable goods | 1.6 | 2.5 | 16.1 | 4.9 | 2.5 | .9 | 13.6 | -11.2 | -2.4 |
| Other | 6.5 | 8.1 | 11.5 | 10.4 | 3.1 | 1.6 | 3.4 | -1.1 | -7.3 |
| Durable goods | 2.3 | 1.2 | .4 | .7 | -1 | -1.1 | -8 | .3 | -8 |
| Nondurable goods | 4.2 | 6.9 | 11.5 | 10.0 | 3.3 | 2.7 | 4.6 | -1.5 | -6.7 |
| Addenda: | | | | | | | | | |
| Motor vehicles | .8 | 10.3 | 2.6 | -22.6 | -9.2 | 9.5 | -7.7 | -25.2 | 13.4 |
| Autos | .5 | 4.2 | -1 | -12.3 | -3.0 | 3.7 | -4.3 | -12.2 | 9.3 |
| Trucks | .4 | 5.9 | 2.5 | -10.2 | -6.0 | 5.5 | -3.4 | -12.7 | 4.2 |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels for most series are in NIPA table 5.11; chained (1992) dollar levels for autos (new and used) and trucks (new only) are in NIPA tables 8.5 and 8.7.

Table 7.—Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|--|------------------------------------|-------------|-------------------------------|--------------|-------------|---------------------------------------|-------------|-------------|-------------|
| | Level | | Change from preceding quarter | | | | | | |
| | | | | | | | | | |
| | 1998 | 1997 | 1998 | | | 1997 | 1998 | | |
| | III | IV | I | II | III | IV | I | II | III |
| Exports of goods and services | 967.4 | 10.7 | -6.9 | -19.8 | -4.7 | 4.4 | -2.8 | -7.7 | -1.9 |
| Goods | 726.8 | 14.3 | -6.4 | -22.2 | .5 | 7.9 | -3.4 | -11.3 | .3 |
| Agricultural goods | 45.8 | 3.6 | -1.3 | -3.3 | -1.8 | 32.8 | -9.9 | -23.4 | -14.1 |
| Nonagricultural goods | 685.5 | 10.1 | -4.9 | -18.6 | 2.6 | 5.9 | -2.7 | -10.2 | 1.5 |
| Services | 244.4 | -2.5 | -8 | 1.0 | -4.4 | -4.0 | -1.2 | 1.7 | -7.0 |
| Imports of goods and services | 1,221.3 | 17.3 | 42.6 | 26.9 | 4.0 | 6.3 | 15.7 | 9.3 | 1.3 |
| Goods | 1,054.8 | 15.1 | 39.2 | 27.8 | 6.0 | 6.4 | 17.0 | 11.4 | 2.3 |
| Petroleum and products | 72.6 | -2.2 | 1.4 | 6.2 | -1.9 | -12.2 | 8.8 | 41.4 | -9.8 |
| Nonpetroleum products | 981.9 | 17.6 | 37.7 | 22.4 | 7.3 | 8.1 | 17.6 | 9.7 | 3.1 |
| Services | 169.4 | 2.3 | 3.8 | -3 | -1.6 | 5.8 | 9.3 | -6 | -3.7 |
| Addendum: Net exports of goods and services | -253.9 | -6.6 | -49.5 | -46.7 | -8.7 | | | | |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are in NIPA table 4.4. Percent changes in major aggregates are in NIPA table 8.1.

tures increased to 4.06 from 4.03. For both ratios, the third-quarter levels are somewhat higher than their averages since 1995.

Exports and imports

Real exports of goods and services decreased 1.9 percent in the third quarter after decreasing 7.7 percent in the second (table 7). Real imports of goods and services increased 1.3 percent after increasing 9.3 percent.

Real exports of goods increased 0.3 percent after decreasing 11.3 percent; exports of nonagricultural goods turned up, and exports of agricultural goods decreased less than in the second quarter. The upturn in nonagricultural goods was mainly accounted for by a sharp upturn in civilian aircraft and engines and by a smaller decrease in "other" nonautomotive capital goods in the third quarter than in the second.

Real exports of services decreased 7.0 percent after increasing 1.7 percent. Downturns in travel and in passenger fares more than offset upturns in transfers under U.S. military agency sales contracts and in "other transportation."

Real imports of goods increased 2.3 percent after increasing 11.4 percent; imports of nonpetroleum goods slowed considerably, and imports of petroleum and products turned down. The slowdown in nonpetroleum imports was mainly in nonautomotive capital goods and in nonautomotive consumer goods.

Real imports of services decreased 3.7 percent after decreasing 0.6 percent. The larger decrease was accounted for by "other private services," which changed little after increasing, and by passenger fares, travel, and "other transportation," all of which turned down.

Government spending

Real government consumption expenditures and gross investment increased 1.6 percent in the third quarter after increasing 3.7 percent in the second (table 8). A downturn in Federal Government spending more than offset an acceleration in State and local government spending.

Federal nondefense spending decreased 12.2 percent after increasing 2.6 percent. The third-quarter decrease was more than accounted for by the privatization of the United States Enrichment Corporation (see footnote 7 for more information). Consumption expenditures decreased after increasing, largely reflecting the deduction in inventories that resulted from the sale of the United States Enrichment Corporation. Investment spending decreased considerably less than in the second quarter, reflecting a smaller decrease in equipment and an upturn in structures.

Federal defense spending increased 4.3 percent after increasing 9.9 percent. The slowdown was more than accounted for by a downturn in consumption spending that reflected a downturn in services other than compensation of employees. Investment increased substantially after decreasing, mainly reflecting an upturn in equipment—largely in aircraft and in "other" equipment.

State and local government spending increased 3.4 percent after increasing 1.8 percent. The step-up was accounted for by an upturn in investment spending, largely in structures; consumption expenditures increased about the same in each quarter. (For more information on government spending, see the section "Government Sector.")

Table 8.—Real Government Consumption Expenditures and Real Gross Investment by Type

[Seasonally adjusted at annual rates]

| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|---|------------------------------------|------------|-------------------------------|-------------|------------|---------------------------------------|-------------|------------|------------|
| | Level | | Change from preceding quarter | | | | | | |
| | | | | | | | | | |
| | 1998 | 1997 | 1998 | | | 1997 | 1998 | | |
| | III | IV | I | II | III | IV | I | II | III |
| Government consumption expenditures and gross investment | 1,300.0 | 0.3 | -6.2 | 11.8 | 5.2 | 0.1 | -1.9 | 3.7 | 1.6 |
| Federal | 452.2 | -2.4 | -10.4 | 8.0 | -1.9 | -2.1 | -8.8 | 7.3 | -1.6 |
| National defense | 303.6 | -1.5 | -15.4 | 7.0 | 3.3 | -2.0 | -18.5 | 9.9 | 4.3 |
| Consumption expenditures | 265.2 | -2.3 | -12.1 | 8.2 | -9 | -3.3 | -16.8 | 13.3 | -1.4 |
| Gross investment | 38.5 | .8 | -3.3 | -1.3 | 4.4 | 8.3 | -29.9 | -13.7 | 62.1 |
| Nondefense | 148.0 | -9 | 4.6 | 1.0 | -4.9 | -2.3 | 13.1 | 2.6 | -12.2 |
| Consumption expenditures | 128.2 | .5 | 1.0 | 2.9 | -4.7 | 1.4 | 3.3 | 9.1 | -13.3 |
| Gross investment | 19.8 | -1.5 | 4.1 | -2.3 | -1 | -27.9 | 128.0 | -35.1 | -2.7 |
| State and local | 848.0 | 2.8 | 4.2 | 3.8 | 7.1 | 1.3 | 2.1 | 1.8 | 3.4 |
| Consumption expenditures | 691.7 | 3.8 | 4.3 | 4.5 | 4.4 | 2.3 | 2.5 | 2.7 | 2.6 |
| Gross investment | 156.2 | -1.0 | -1 | -7 | 2.7 | -2.6 | 0 | -1.9 | 7.3 |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are in NIPA table 3.8. Percent changes in major aggregates are in NIPA table 8.1.

Revisions

As noted earlier, the preliminary estimate of a 3.9-percent increase in real GDP in the third quarter is 0.6 percentage point higher than the advance estimate (table 9); for 1978–97, the average revision, without regard to sign, from the advance estimate to the preliminary estimate was 0.5 percentage point.

The revision to GDP primarily reflected upward revisions to nonautomotive inventory investment and to nonresidential and residential structures. Revisions to imports and exports, to PCE for durable goods, to business investment in PDE,

and to business investment in motor vehicle inventories were mostly offsetting.

The upward revision to nonautomotive inventory investment primarily reflected the incorporation of revised Census Bureau data on wholesale trade inventories for August and newly available data for September.

The upward revisions to nonresidential and residential structures primarily reflected the incorporation of revised Census Bureau data on the value of construction put in place for July and August and newly available data for September.

Imports were revised down, and exports were revised up; both revisions primarily reflected the incorporation of revised Census Bureau data for goods for August and newly available data for September. These revisions were primarily in capital goods (both equipment and parts). Because the imports and exports of capital equipment are also used to calculate PDE, PDE was revised down; in order to estimate PDE—that is, domestic business spending on equipment—imports are added to domestic manufacturers' shipments of business equipment, and exports are subtracted.

PCE for durable goods was revised up. The revision was mainly to trucks and to used autos, largely reflecting the incorporation of newly available September data on the consumer share of truck purchases and on used car sales and inventories. The incorporation of newly available data also contributed to downward revisions to PDE for trucks and to business investment in motor vehicle inventories.

The preliminary estimates of the increases in the price indexes for gross domestic purchases (0.5 percent) and for GDP (0.8 percent) were the same as the advance estimates.

The preliminary estimate of the increase in real DPI was 3.1 percent, 0.5 percentage point higher than the advance estimate. Current-dollar DPI increased 4.1 percent, also 0.5 percentage point higher than the advance estimate. The upward revision to DPI was primarily accounted for by a downward revision to personal tax and non-tax payments that reflected the incorporation of newly available Federal tax collection data from the *Monthly Treasury Statement* for September; current-dollar personal income was revised up only slightly. The preliminary estimate of the personal saving rate—personal savings as a percentage of current-dollar DPI—was 0.2 percent, 0.1 percentage point higher than the advance estimate.

**Table 9.—Revisions to Real Gross Domestic Product and Prices,
Third Quarter 1998**

(Seasonally adjusted at annual rates)

| | Percent change from preceding quarter | | Preliminary estimate minus advance estimate | |
|--|--|------------------------------|---|---|
| | Advance estimate | Prelimi- nary estimate | Percent- age points | Billions of chained (1992) dollars |
| Gross domestic product | 3.3 | 3.9 | 0.6 | 10.5 |
| Less: Exports of goods and services | -2.9 | -1.9 | 1.0 | 2.4 |
| Goods | -4 | .3 | .7 | 1.3 |
| Services | -8.6 | -7.0 | 1.6 | 1.1 |
| Plus: Imports of goods and services | 3.4 | 1.3 | -2.1 | -6.2 |
| Goods | 4.5 | 2.3 | -2.2 | -5.5 |
| Services | -2.2 | -3.7 | -1.5 | -7 |
| Equals: Gross domestic purchases | 4.0 | 4.2 | .2 | 3.6 |
| Less: Change in business inventories | | | | -6 |
| Nonfarm | | | | -8 |
| Farm | | | | .2 |
| Equals: Final sales to domestic purchasers | 2.3 | 2.9 | .6 | 11.0 |
| Personal consumption expenditures | 3.9 | 4.1 | .2 | 2.6 |
| Durable goods | 0 | 2.4 | 2.4 | 4.2 |
| Nondurable goods | 2.3 | 2.1 | -.2 | -.7 |
| Services | 5.5 | 5.4 | -.1 | -.4 |
| Fixed investment | 1.2 | 1.4 | .2 | .9 |
| Nonresidential | -1.0 | -1.2 | -.2 | -.7 |
| Structures | -6.5 | -1.5 | 5.0 | 2.6 |
| Producers' durable equipment | 1.1 | -1.1 | -2.2 | -4.2 |
| Residential | 6.8 | 8.6 | 1.8 | 1.2 |
| Government consumption expenditures and gross investment | 1.4 | 1.6 | .2 | .6 |
| Federal | -1.7 | -1.6 | .1 | .1 |
| National defense | 4.2 | 4.3 | .1 | .2 |
| Nondefense | -12.1 | -12.2 | -.1 | -.1 |
| State and local | 3.2 | 3.4 | .2 | .5 |
| Addenda: | | | | |
| Final sales of domestic product | 2.3 | 2.9 | .6 | 11.0 |
| Gross domestic purchases price index ¹ | .5 | .5 | 0 | |
| GDP price index ¹ | .8 | .8 | 0 | |

1. Based on chained-type annual (1992) weights.

NOTE.—The preliminary estimates for the third quarter of 1998 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Retail sales for August and September (revised), consumers' share of new-car purchases for September, average unit value for domestic new autos for September (revised), used car sales for July and August, consumers' share of new-truck purchases for September, and residential electricity usage for July.

Nonresidential fixed investment: Construction put in place for July and August (revised) and September, manufacturers' shipments of machinery and equipment for August and September (revised), and exports and imports of machinery and equipment for August (revised) and September.

Residential fixed investment: Construction put in place for July and August (revised) and September.

Change in business inventories: Manufacturing, retail trade, and wholesale trade inventories for August (revised) and September.

Exports and imports of goods and services: Exports and imports of goods for August (revised) and September.

Government consumption expenditures and gross investment: Monthly Treasury Statement detailed data for September, Department of Defense detailed financial reports for the quarter, and State and local government construction put in place for July and August (revised) and September.

Wages and salaries: Employment, average hourly earnings, and average weekly hours for August and September (revised).

GDP prices: Detailed merchandise export and import price indexes for July through September (revised), unit-value index for petroleum imports for August (revised) and September, and housing prices for the third quarter.

Corporate Profits

Profits from current production increased \$3.3 billion in the third quarter after decreasing \$8.6 billion in the second (table 10).⁹ An increase in profits of domestic corporations was largely offset by a decrease in profits from the rest of the world. Profits of domestic financial corporations increased \$2.0 billion after decreasing \$1.2 billion. Profits of domestic nonfinancial corporations increased \$13.6 billion after decreasing \$6.1 billion; in the third quarter, unit profits and real product increased. Profits from the rest of the world decreased \$12.2 billion after decreasing \$1.3 billion; the third-quarter decrease mainly reflected a drop in receipts of earnings from foreign affiliates.¹⁰

Cash flow from current production, a profits-related measure of internally generated funds

9. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (which are part of the "Selected NIPA Tables"; see page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

10. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates are derived from BEA's international transactions accounts.

Table 10.—Corporate Profits

[Seasonally adjusted at annual rates]

| | Level | Change from preceding quarter | | | | |
|--|---------------------|-------------------------------|--------|-------|-------|--|
| | 1998 | 1997 | 1998 | | | |
| | III | IV | I | II | III | |
| | Billions of dollars | | | | | |
| Profits from current production | 823.9 | -20.1 | 8.4 | -8.6 | 3.3 | |
| Domestic industries | 738.9 | -9.8 | 1.8 | -7.3 | 15.6 | |
| Financial | 132.1 | 6.2 | 1.8 | -1.2 | 2.0 | |
| Nonfinancial | 606.8 | -15.9 | 0 | -6.1 | 13.6 | |
| Rest of the world | 85.1 | -10.3 | 6.6 | -1.3 | -12.2 | |
| Receipts (inflows) | 134.8 | -14.7 | 3.6 | -1 | -11.2 | |
| Payments (outflows) | 49.7 | -4.2 | -3.1 | 1.2 | 1.0 | |
| IVA | 12.1 | -5 | 21.0 | -17.5 | 4.3 | |
| CCAdj | 94.9 | 2.9 | 4.8 | 4.5 | 5.5 | |
| Profits before tax | 717.0 | -22.5 | -17.3 | 4.4 | -6.5 | |
| Profits tax liability | 243.8 | -4.9 | -9.4 | 1.7 | 2.2 | |
| Profits after tax | 473.2 | -17.6 | -7.9 | 2.6 | -8.6 | |
| Cash flow from current production | 804.3 | -9.7 | 21.9 | -5.8 | 5.6 | |
| Corporate profits with IVA | 729.1 | -23.0 | 3.6 | -13.0 | -2.2 | |
| Domestic industries | 644.0 | -12.7 | -2.9 | -11.9 | 10.1 | |
| Financial | 135.7 | 6.1 | 1.6 | -1.9 | 1.3 | |
| Nonfinancial | 508.3 | -18.8 | -4.6 | -9.9 | 8.8 | |
| Rest of the world | 85.1 | -10.3 | 6.6 | -1.3 | -12.2 | |
| | Dollars | | | | | |
| Unit price, costs, and profits of nonfinancial corporations: | | | | | | |
| Unit price | 1.061 | 0 | -0.002 | 0 | 0 | |
| Unit labor cost | .698 | .007 | .002 | .002 | -.001 | |
| Unit nonlabor cost | .225 | -.001 | -.001 | .000 | -.001 | |
| Unit profits from current production | .137 | -.006 | -.002 | -.003 | .001 | |

NOTE.—Levels of these and other profits series are in NIPA tables 1.14, 1.16, 6.18C, and 7.15.

IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

available for investment, increased \$5.6 billion after decreasing \$5.8 billion. The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, increased to 86.5 percent from 84.8 percent; the increase followed four consecutive decreases. The average quarterly ratio for 1991-97 was 91.9 percent.

Industry profits and related measures.—Industry profits decreased \$2.2 billion after decreasing \$13.0 billion.¹¹ Profits of domestic nonfinancial corporations increased \$8.8 billion after decreasing \$9.9 billion, partly reflecting upturns in the transportation and public utility group and in manufacturing. Profits of domestic financial corporations increased \$1.3 billion after decreasing \$1.9 billion. Profits from the rest of the world decreased \$12.2 billion after decreasing \$1.3 billion.

Profits before tax (PBT) decreased \$6.5 billion after increasing \$4.4 billion. About half of the difference between this decrease and the \$3.3 billion increase in profits from current production was accounted for by larger inventory losses, as reflected in a \$4.3 billion increase in the inventory valuation adjustment.¹² The rest of the difference was accounted for by the capital consumption adjustment.

Government Sector

The current surplus of the Federal Government and of State and local governments, the NIPA measure of net saving by government, grew \$27.4 billion, to \$243.1 billion, in the third quarter after increasing \$16.7 billion in the second (table 11).¹³ The step-up was accounted for by accelerations in the current surpluses of both the State and local governments and Federal Government.¹⁴

11. Industry profits are estimated as the sum of corporate profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C (on page D-16 of this issue). Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

12. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPA's, inventory profits or losses are shown as adjustments to business income (corporate profits and proprietors' income). Inventory profits are shown as the inventory valuation adjustment with the sign reversed.

13. Net saving equals gross saving less consumption of fixed capital (CFC). Estimates of government gross saving, CFC, and net saving are shown in NIPA table 5.1.

14. The NIPA estimates for the government sector are based on financial statements for the Federal Government and for State and local governments, but they differ from them in several respects. The major differences are shown in NIPA tables 3.18B and 3.19, which reconcile the NIPA estimates with government financial statements; these tables were most recently published on pages 10 and 11 of the October 1998 SURVEY OF CURRENT BUSINESS.

Federal

The Federal Government current surplus increased \$18.7 billion, to \$93.1 billion, in the third quarter after increasing \$15.6 billion in the second; the acceleration resulted from a sharper deceleration in current expenditures than in receipts.

Receipts.—Federal receipts increased \$20.1 billion in the third quarter after increasing \$29.2 billion in the second. The deceleration was accounted for by personal tax and nontax receipts, which

Table 11.—Government Sector Receipts and Current Expenditures

(Billions of dollars, seasonally adjusted at annual rates)

| | Level | Change from preceding quarter | | | | |
|--|---------|-------------------------------|------|-------|------|------|
| | 1998 | 1997 | | 1998 | | |
| | III | III | IV | I | II | III |
| Receipts | 2,779.3 | 51.1 | 34.3 | 53.3 | 41.6 | 34.1 |
| Current expenditures | 2,536.2 | 10.2 | 26.9 | -2.1 | 24.9 | 6.7 |
| Current surplus or deficit (-) | 243.1 | 40.9 | 7.4 | 55.4 | 16.7 | 27.4 |
| Social insurance funds | 164.0 | 5.6 | 7.7 | 3.5 | 6.3 | 5.7 |
| Other | 79.0 | 35.3 | -3 | 51.9 | 10.4 | 21.6 |
| Federal Government | | | | | | |
| Receipts | 1,858.4 | 36.0 | 25.9 | 43.6 | 29.2 | 20.1 |
| Personal tax and nontax receipts | 863.5 | 17.8 | 21.7 | 37.9 | 19.2 | 7.8 |
| Corporate profits tax accruals | 208.0 | 10.5 | -4.2 | -8.0 | 1.4 | 1.8 |
| Indirect business tax and nontax accruals | 97.9 | -4 | -1.3 | .1 | 1.3 | 2.7 |
| Contributions for social insurance | 689.1 | 8.2 | 9.7 | 13.6 | 7.3 | 7.9 |
| Current expenditures | 1,765.3 | 1.5 | 23.5 | -13.1 | 13.6 | 1.4 |
| Consumption expenditures | 458.2 | -4.8 | .1 | -9.2 | 13.1 | -5.8 |
| National defense | 302.7 | -4.4 | -1.2 | -11.5 | 9.7 | -3 |
| Nondefense | 155.4 | -4 | 1.3 | 2.3 | 3.3 | -5.5 |
| Transfer payments (net) | 816.1 | 4.1 | 14.7 | 2.6 | 2.6 | 5.0 |
| To persons | 805.8 | 3.9 | 3.2 | 14.2 | 3.5 | 3.7 |
| To the rest of the world | 10.3 | 0 | 11.6 | -11.6 | -9 | 1.3 |
| Grants-in-aid to State and local governments | 231.4 | 1.2 | 7.4 | -3.1 | -1.8 | 4.5 |
| Net interest paid | 225.7 | .3 | -1 | -3.0 | -5 | -2.6 |
| Subsidies less current surplus of government enterprises | 34.0 | .9 | 1.2 | -3 | .1 | .5 |
| Subsidies | 30.6 | -4 | -5 | -9 | -5 | -4 |
| Of which: Agricultural subsidies | 7.6 | 0 | -1 | -2 | -1 | -1 |
| Less: Current surplus of government enterprises | -3.4 | -1.3 | -1.8 | -5 | -6 | -9 |
| Less: Wage accruals less disbursements | 0 | 0 | 0 | 0 | 0 | 0 |
| Current surplus or deficit (-) | 93.1 | 34.5 | 2.5 | 56.6 | 15.6 | 18.7 |
| Social insurance funds | 96.6 | 6.2 | 8.0 | 3.6 | 6.1 | 6.0 |
| Other | -3.5 | 28.2 | -5.4 | 53.0 | 9.5 | 12.7 |
| State and local governments | | | | | | |
| Receipts | 1,152.2 | 16.3 | 15.7 | 6.8 | 10.5 | 18.4 |
| Personal tax and nontax receipts | 244.3 | 5.4 | 4.8 | 3.5 | 6.8 | 7.1 |
| Corporate profits tax accruals | 35.8 | 1.9 | -8 | -1.4 | .3 | .4 |
| Indirect business tax and nontax accruals | 558.4 | 7.4 | 3.8 | 7.3 | 4.5 | 5.9 |
| Contributions for social insurance | 82.4 | .5 | .4 | .5 | .6 | .7 |
| Federal grants-in-aid | 231.4 | 1.2 | 7.4 | -3.1 | -1.8 | 4.5 |
| Current expenditures | 1,002.3 | 9.9 | 10.8 | 7.9 | 9.5 | 9.8 |
| Consumption expenditures | 793.1 | 8.2 | 9.3 | 5.2 | 8.0 | 8.4 |
| Transfer payments to persons | 318.2 | 3.0 | 3.1 | 4.0 | 3.0 | 2.6 |
| Net interest paid | -83.7 | -1.5 | -1.3 | -1.2 | -1.5 | -1.5 |
| Less: Dividends received by government | 16.0 | .1 | .4 | .5 | .3 | 0 |
| Subsidies less current surplus of government enterprises | -9.4 | .1 | .2 | .4 | .3 | .2 |
| Subsidies | .4 | 0 | 0 | 0 | 0 | 0 |
| Less: Current surplus of government enterprises | 9.8 | -1 | -2 | -4 | -3 | -2 |
| Less: Wage accruals less disbursements | 0 | 0 | 0 | 0 | 0 | 0 |
| Current surplus or deficit (-) | 150.0 | 6.5 | 4.8 | -1.2 | 1.1 | 8.7 |
| Social insurance funds | 67.4 | -6 | -3 | -1 | .2 | -3 |
| Other | 82.6 | 7.1 | 5.1 | -1.1 | .9 | 9.0 |

NOTE.—Levels of these series are in NIPA tables 3.1–3.3.

increased \$7.8 billion after increasing \$19.2 billion. In personal tax and nontax receipts, “estimated income tax payments and final settlements, less refunds” decreased \$3.1 billion after increasing \$3.7 billion, and net estate and gift taxes decreased \$2.4 billion after increasing \$2.7 billion.¹⁵

Indirect business tax and nontax accruals increased \$2.7 billion after increasing \$1.3 billion. The step-up was accounted for by customs duties, which increased \$1.4 billion after increasing \$0.2 billion.

Contributions for social insurance increased \$7.9 billion after increasing \$7.3 billion. The acceleration was mostly attributable to contributions for social security (old-age, survivors, disability, and health insurance), which increased \$7.6 billion after increasing \$7.2 billion, partly reflecting a step-up in wages and salaries.

Corporate profits tax accruals increased \$1.8 billion after increasing \$1.4 billion, reflecting the pattern of domestic corporate profits before tax.

Current expenditures.—Current expenditures increased \$1.4 billion in the third quarter after increasing \$13.6 billion in the second.¹⁶ The deceleration was more than accounted for by a downturn in consumption expenditures and by a larger decrease in net interest paid in the third quarter than in the second. In contrast, grants-in-aid to State and local governments turned up, and transfer payments accelerated.

Consumption expenditures decreased \$5.8 billion after increasing \$13.1 billion. The downturn was accounted for by both defense consumption expenditures, which decreased \$0.3 billion after increasing \$9.7 billion, and nondefense consumption expenditures, which decreased \$5.5 billion after increasing \$3.3 billion.

Within defense consumption expenditures, services turned down, mostly as a result of a deceleration in research and development services and a downturn in personnel support services. The downturn in services was partly offset by an upturn in nondurable goods, primarily in ammunition, and by a step-up in durable goods, mainly in missile parts.

The downturn in nondefense consumption expenditures was more than accounted for by a downturn in durable goods and by a deceleration

15. “Estimated income tax payments and final settlements, less refunds” reflects data on collections of Federal nonwithheld income taxes through September, which include the final payment of quarterly estimated taxes in the calendar year. For information on recent changes in the methodology for these estimates, see Eugene P. Seskin, “Annual Revision of the National Income and Product Accounts,” SURVEY 78 (August 1998): 29–31.

16. For information on the definition of current expenditures as well as of other major NIPA components, see “A Guide to the NIPAs,” SURVEY 78 (March 1998): 26–68.

tion in services. Durable goods decreased \$6.1 billion after increasing \$0.1 billion; the downturn was attributable to the sale of the United States Enrichment Corporation, which reduced consumption expenditures \$5.8 billion in the third quarter (see [footnote 7](#) for more information). The deceleration in services was primarily attributable to an upturn in sales of services; sales except those by government enterprises for goods and services that are similar to those provided by the private sector are treated as deductions from government consumption expenditures.

Net interest paid decreased \$2.6 billion after decreasing \$0.5 billion. The larger decrease was attributable to gross interest paid, which decreased \$2.6 billion after decreasing \$0.1 billion.

Grants-in-aid to State and local governments increased \$4.5 billion after decreasing \$1.8 billion. Grants for education, highways, and food and nutrition programs turned up, and grants for public assistance and the Environmental Protection Agency turned down.

Transfer payments (net) increased \$5.0 billion after increasing \$2.6 billion. The acceleration was attributable to transfer payments to the rest of the world, which increased \$1.3 billion after decreasing \$0.9 billion. Transfer payments to persons increased \$3.7 billion after increasing \$3.5 billion.

State and local

The State and local government current surplus increased \$8.7 billion, to \$150.0 billion,

in the third quarter after increasing \$1.1 billion in the second. The acceleration was more than accounted for by an acceleration in receipts.

Receipts increased \$18.4 billion after increasing \$10.5 billion. The acceleration was mostly accounted for by the upturn in Federal grants-in-aid and by a step-up in indirect business tax and nontax accruals. Indirect business tax and nontax accruals increased \$5.9 billion after increasing \$4.5 billion; the acceleration was mostly accounted for by a step-up in "other tax and nontax accruals"; these accruals were boosted \$1.7 billion by payments from tobacco companies for out-of-court settlements with four States. The step-up in "other tax and nontax accruals" was partly offset by a deceleration in sales taxes.

Current expenditures increased \$9.8 billion after increasing \$9.5 billion; an acceleration in consumption expenditures and a deceleration in dividends received by government were partly offset by a deceleration in transfer payments. Consumption expenditures increased \$8.4 billion after increasing \$8.0 billion; the acceleration was primarily attributable to a step-up in services. Dividends received by government, which are recorded as a deduction to current expenditures in the derivation of the current surplus, were unchanged after increasing \$0.3 billion. Transfer payments to persons increased \$2.6 billion after increasing \$3.0 billion; the deceleration was the result of a deceleration in payments for medicaid. 